

# Annual Report to the Board

Report Period: July 2009 –  
June 2010

South Coast Air Quality Management District  
457 Deferred Compensation Plan

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# EXECUTIVE SUMMARY

# Executive Summary

South Coast Air Quality Management District (“District”) sponsors and administers an eligible deferred compensation program for its employees, as covered under section 457 of the Federal Internal Revenue Code. The South Coast Air Quality Management District Deferred Compensation Plan (“Plan”) was adopted on January 1, 1987. Employees are immediately eligible upon hire to participate in the Plan.

The Plan is administered by Hartford Life Insurance Company (“Hartford”), a retirement services, asset management and insurance firm. The Hartford was founded in 1810 and has been providing defined contribution retirement services for almost 40 years. They currently have over 24,000 plans under administration and \$49.5 billion in assets under management. The Hartford currently carries a Standard & Poor rating of AA- (Very Strong).

In addition to the retirement plan vendor, the District utilizes the services of Benefit Funding Services Group (BFSG). BFSG is an independent, third-party consulting firm that provides services to the Plan as fiduciaries under a Registered Investment Advisor agreement. Their consulting services include investment analysis, review and recommendation of investment options offered in the Plan; fiduciary compliance assistance to Committee members and annual Plan cost benchmarking. BFSG has been providing services to the Plan since 2007.

The Plan was established to provide a retirement savings program for the employees of the District, and is maintained for the exclusive purpose of benefiting the Plan participants and their beneficiaries. The Plan also is intended to operate in accordance with all applicable state and federal laws and regulations.

While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide an appropriate range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance, and retirement goals.

The AQMD Deferred Compensation Plan Committee, as appointed by the AQMD Governing Board, meets on a regular basis to review the Plan’s design, investment options, asset allocation/demographics, and to make changes as necessary.

# YEAR IN REVIEW

# 2009/2010 Year in Review

The AQMD 457 Deferred Compensation Plan Committee was officially chartered in May 2008. Prior to that, the Committee met on a regular basis to discuss and review the Plan. Items addressed and adopted during the year are as follows:

## Investments

Date	Item	Update
November 2009	Fund Changes	The Committee agreed to make the following fund changes: Remove Hartford US Government Securities and replace with American Century Government Bond Inv (New fund) Remove Hartford Total Return Bond and replace with PIMCO Total Return Admin (New fund) Remove AllianceBernstein International Value and replace with Hartford International Opportunities
April 2010	Asset Allocation Models	The Committee agreed to add asset allocation models developed by BFSG to the Plan to provide participants with a tool to assist them in allocating their accounts according to their specific risk tolerance and time horizon to retirement.

## Plan Compliance

Date	Item	Update
December 2009	PERA Policy	The Committee adopted a Plan Expense Reimbursement Account (PERA) Policy that outlines how excess revenues will be used and how Plan expenses will be paid. The Committee negotiated with The Hartford for a PERA Budget of \$47,500 annually. (See Exhibit A)

## Committee Structure

Date	Item	Update
June 2010	Committee Membership Changes	The Committee Charter was updated to reflect the new Committee membership that consists of Jeanell Bradley, Bill Johnson, Michael O'Kelly and Kurt Wiese.

# PLAN ASSETS / DEMOGRAPHICS

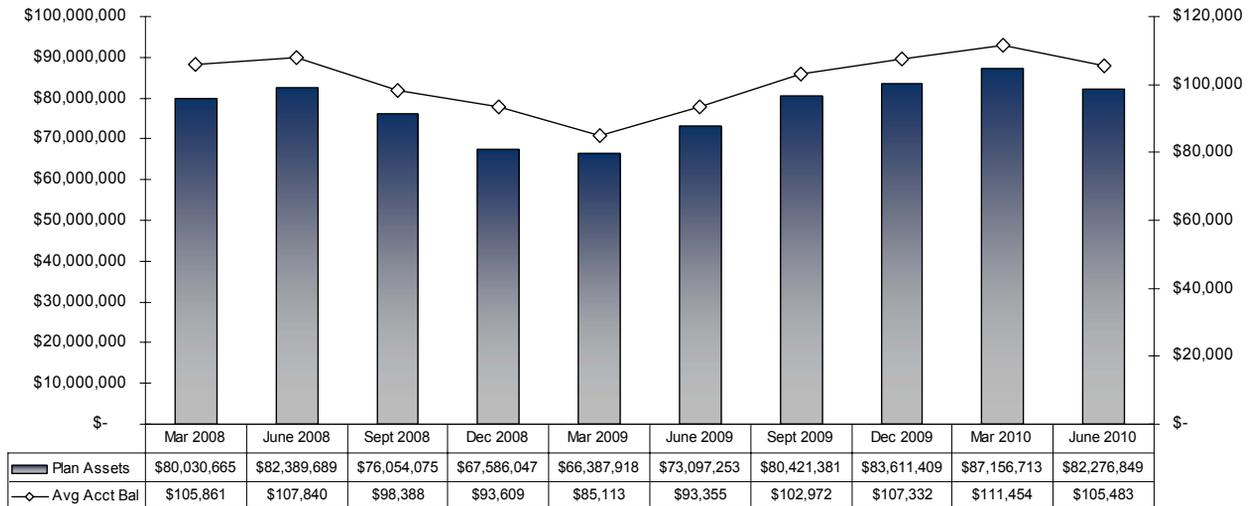
As of 6/30/2010

## Plan Assets / Demographics – 2<sup>nd</sup> Quarter 2010

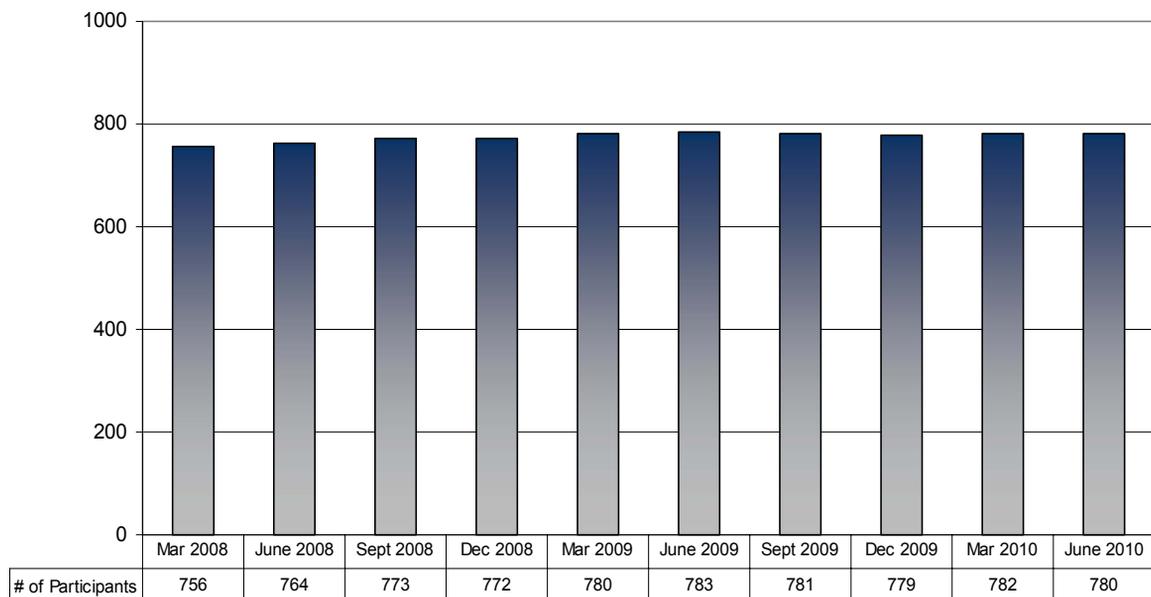
Fund Name	% of Employee Deferrals	Employee Deferrals	# of Balances	% of Plan Assets	Plan Assets
General Account	38.76%	\$587,031	474	41.15%	\$33,789,672
Hartford Capital Appreciation HLS	8.62%	\$130,557	347	10.04%	\$8,244,665
Janus Overseas*	8.46%	\$128,110	230	7.40%	\$6,076,761
Janus Twenty	4.82%	\$73,003	240	6.86%	\$5,631,190
Oakmark Equity & Income II	4.24%	\$64,250	167	4.22%	\$3,463,186
MFS Utilities A	2.22%	\$33,584	128	2.46%	\$2,022,675
PIMCO Real Return Admin	1.68%	\$25,399	76	2.46%	\$2,016,046
Hartford Mid Cap HLS	2.24%	\$33,851	155	2.34%	\$1,924,303
SSgA S&P 500 Index	2.59%	\$39,150	118	2.02%	\$1,659,687
American Funds Growth Funds of Amer R4	1.87%	\$28,375	126	1.79%	\$1,465,903
Davis NY Venture A	1.53%	\$23,130	95	1.67%	\$1,371,799
Hartford Intl Opportunities HLS	2.07%	\$31,381	155	1.58%	\$1,301,359
Hartford Small Company HLS	1.74%	\$26,419	97	1.42%	\$1,166,491
Hartford Dividend & Growth HLS	2.04%	\$30,903	121	1.35%	\$1,105,868
PIMCO Total Return	1.17%	\$17,663	72	1.32%	\$1,081,467
Invesco Real Estate	0.91%	\$13,760	42	1.28%	\$1,047,071
American Century Government Bond	1.45%	\$21,950	48	1.22%	\$998,092
American Century Equity Income Inv	1.77%	\$26,834	101	1.16%	\$951,120
Allianz NFJ Small Cap Value A	1.87%	\$28,294	96	1.12%	\$919,896
Invesco Van Kampen Equity & Income A	1.02%	\$15,463	69	0.95%	\$778,243
SSgA Intermediate Bond Index	1.07%	\$16,275	20	0.71%	\$579,605
MFS Intl New Discovery	0.71%	\$10,716	53	0.65%	\$534,583
SSgA Dow Jones Target 2025	0.46%	\$7,021	17	0.57%	\$470,692
Artisan Mid Cap Value	0.98%	\$14,838	60	0.52%	\$427,219
Putnam High Yield Advantage A	0.30%	\$4,522	35	0.49%	\$404,454
Munder Mid Cap Core Growth A	0.62%	\$9,431	54	0.43%	\$351,484
SSgA EAFE Index	0.37%	\$5,576	23	0.41%	\$333,139
Hartford Global Health HLS	0.35%	\$5,289	39	0.35%	\$286,969
Victory Diversified Stock A	0.54%	\$8,232	21	0.32%	\$259,851
SSgA Russell 2000 Index	0.47%	\$7,064	30	0.28%	\$229,434
SSgA Dow Jones Target 2035	0.44%	\$6,738	13	0.26%	\$211,116
American Century Capital Preservation	0.36%	\$5,500	3	0.25%	\$203,428
Lord Abbett Small Cap Blend P	0.62%	\$9,364	30	0.22%	\$177,067
SSgA Dow Jones Target 2045	0.42%	\$6,396	19	0.20%	\$166,738
SSgA Mid Cap Index	0.49%	\$7,478	22	0.20%	\$162,730
Neuberger Berman Socially Responsive Tr	0.20%	\$3,058	32	0.15%	\$123,614
SSgA Dow Jones Target Today	0.00%	\$0	5	0.12%	\$100,947
SSgA Dow Jones Target 2015	0.52%	\$7,834	9	0.10%	\$80,444
<b>Subtotal</b>	<b>100%</b>	<b>\$1,514,437</b>	<b>780</b>	<b>100%</b>	<b>\$82,119,011</b>
Self-Directed Brokerage Account		\$0	4		\$157,838
<b>Total</b>	<b>100%</b>	<b>\$1,514,437</b>	<b>780</b>	<b>100%</b>	<b>\$82,276,849</b>

# Plan Assets / Demographics

## Growth of Plan Assets/Average Account Balance



## Number of Plan Participants



# Plan Assets / Demographics

## Annual Net Cash Flow –YTD 2010

QUARTER ENDING	2010				YTD 2010
	March 31st	June 30th	September 31st	December 31st	
<b>Cash Flow</b>					
<b>Beginning Market Value</b>	<b>\$83,611,409</b>	<b>\$87,156,713</b>			
Employee Deferrals	\$1,636,607	\$1,600,762			<b>\$3,237,368</b>
Rollover	\$0	\$0			<b>\$0</b>
Misc Rollover	\$0	\$0			<b>\$0</b>
<b>TOTAL RECEIPTS</b>	<b>\$1,636,607</b>	<b>\$1,600,762</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,237,368</b>
Withdrawals	-\$882,350	-\$1,432,228			<b>-\$2,314,578</b>
Fees	\$0	\$0			<b>\$0</b>
<b>TOTAL DISBURSEMENTS</b>	<b>-\$882,350</b>	<b>-\$1,432,228</b>	<b>\$0</b>	<b>\$0</b>	<b>-\$2,314,578</b>
<b>NET CASH FLOW</b>	<b>\$754,256</b>	<b>\$168,534</b>	<b>\$0</b>	<b>\$0</b>	<b>\$922,790</b>
Change in Value	\$2,791,047	-\$5,048,397			<b>-\$2,257,350</b>
Net Transfers	\$0	\$0			<b>\$0</b>
<b>Ending Market Value</b>	<b>\$87,156,713</b>	<b>\$82,276,849</b>	<b>\$0</b>	<b>\$0</b>	

## Annual Net Cash Flow - 2009

QUARTER ENDING	2009				YTD 2009
	March 31st	June 30th	September 31st	December 31st	
<b>Cash Flow</b>					
<b>Beginning Market Value</b>	<b>\$67,586,047</b>	<b>\$66,387,918</b>	<b>\$73,096,898</b>	<b>\$80,421,381</b>	
Employee Deferrals	\$1,870,082	\$1,187,472	\$1,303,154	\$1,269,081	<b>\$5,629,789</b>
Rollover	\$0	\$0	\$0	\$0	<b>\$0</b>
Misc Rollover	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>TOTAL RECEIPTS</b>	<b>\$1,870,082</b>	<b>\$1,187,472</b>	<b>\$1,303,154</b>	<b>\$1,269,081</b>	<b>\$5,629,789</b>
Withdrawals	-\$1,442,702	-\$708,831	-\$453,593	-\$797,467	<b>-\$3,402,593</b>
Fees	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>TOTAL DISBURSEMENTS</b>	<b>-\$1,442,702</b>	<b>-\$708,831</b>	<b>-\$453,593</b>	<b>-\$797,467</b>	<b>-\$3,402,593</b>
<b>NET CASH FLOW</b>	<b>\$427,380</b>	<b>\$478,641</b>	<b>\$849,561</b>	<b>\$471,614</b>	<b>\$2,227,196</b>
Change in Value	-\$1,627,786	\$6,230,339	\$6,474,922	\$2,718,414	<b>\$13,795,889</b>
Net Transfers	\$2,277	\$0	\$0	\$0	<b>\$2,277</b>
<b>Ending Market Value</b>	<b>\$66,387,918</b>	<b>\$73,096,898</b>	<b>\$80,421,381</b>	<b>\$83,611,409</b>	

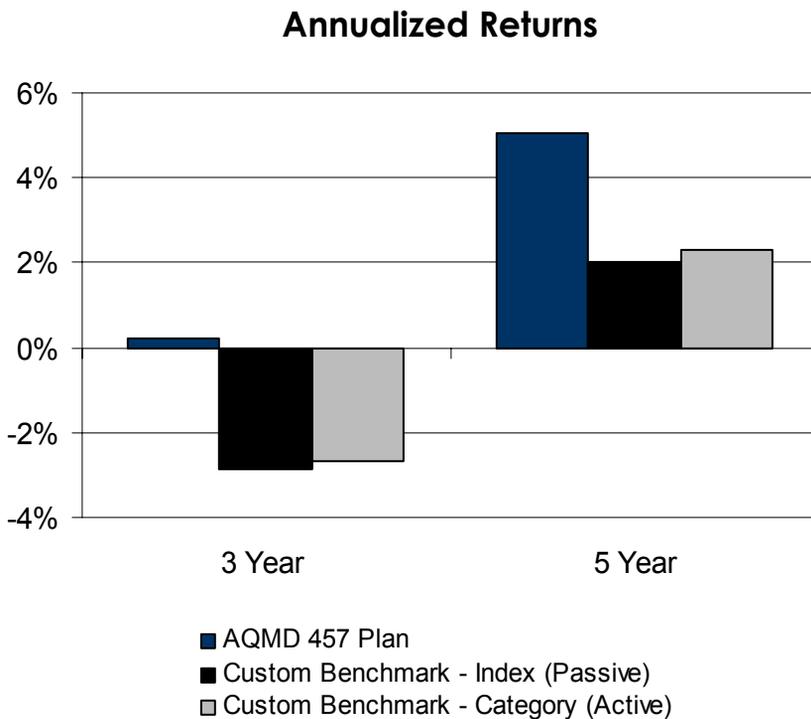
PLAN  
PERFORMANCE  
As of 6/30/2010

# Weighted Portfolio Return versus Custom Benchmark

Performance as of June 30, 2010	3 Month	1 Year	Annualized Returns		3 YR Std Dev	3 YR Mean	3 YR Sharpe	Expense Ratio**
			3 Year	5 Year				
<b>AQMD 457 Plan</b>	<b>-5.28%</b>	<b>10.45%</b>	<b>0.24%</b>	<b>5.07%</b>	<b>12.20</b>	<b>0.24</b>	<b>-0.06</b>	<b>0.75</b>
Custom Benchmark - Index (Passive)	-5.06%	9.01%	-2.86%	2.02%	N/A	N/A	N/A	N/A
Custom Benchmark - Category (Active)	-5.18%	9.05%	-2.66%	2.31%	11.26	-2.66	-0.30	0.89*

\*Custom expense ratio represents the weighted expense (based upon current allocation) of Institutional and Retirement share classes in each asset category.

\*\*Expense calculation includes lifecycle funds.



# Individual Fund Ranking

(Per Investment Policy Statement Evaluation Criteria)

Investment Name	Quarterly Ranking		
	2Q10	1Q10	4Q09
<b>Inflation Protected</b>			
PIMCO Real Return Admin	19	26	23
<b>Intermediate Government</b>			
American Century Government Bond Inv	10	9	8
<b>Intermediate Bond</b>			
PIMCO Total Return Admin	2	1	1
<b>High Yield Bond</b>			
Putnam High Yield Advantage A	15	17	15
<b>Hybrid / Balanced</b>			
Invesco Van Kampen Equity and Income A	15	4	5
Oakmark Equity & Income II	17	16	16
<b>Large Value</b>			
American Century Equity Income Inv	13	14	13
Hartford Dividend & Growth HLS IA	2	2	2
<b>Large Blend</b>			
Davis NY Venture A	21	24	18
Hartford Capital Appreciation HLS IA	5	3	2
Neuberger Berman Socially Resp Tr	10	18	26
Victory Diversified Stock A	29	19	16
<b>Large Growth</b>			
American Funds Growth Fund of Amer R4	5	4	3
Janus Twenty T	9	9	10
<b>Mid Cap Value</b>			
Artisan Mid Cap Value Investor	9	9	1
<b>Mid Cap Growth</b>			
Hartford MidCap HLS IA	3	2	2
Munder Mid-Cap Core Growth A	33	30	27
<b>Small Cap Value</b>			
Allianz NFJ Small Cap Value A	5	5	5
<b>Small Cap Growth</b>			
Hartford Small Company HLS IA	13	10	8
Lord Abbett Small-Cap Blend P	51	39	36
<b>Foreign Large Equity</b>			
Hartford International Opp HLS IA	11	11	10
Janus Overseas T	12	17	19
<b>Foreign Small / Mid Equity</b>			
MFS International New Discovery R3	16	14	19
<b>Health Care</b>			
Hartford Global Health HLS IA	9	17	18
<b>Real Estate</b>			
Invesco Real Estate A	18	19	15
<b>Utilities</b>			
MFS Utilities A	13	12	15
<b>Average Rank</b>	14	14	13
<b>Plan Weighted Rank (Reweighted)</b>	11	11	11

# APPENDIX

# South Coast Air Quality Management District 457 Deferred Compensation Plan Plan Expense Reimbursement Account Policy

**PURPOSE:** The purpose of this policy is to provide guidelines for the South Coast Air Quality Management District's 457 Deferred Compensation Plan Committee ("Committee") on how to allocate monies deposited into the Plan Expense Reimbursement Account ("PERA").

**PERA BUDGET:** Effective November 1, 2007, a PERA Budget was established by The Hartford in the amount of \$11,875 per quarter for reimbursement to the South Coast Air Quality Management District 457 Deferred Compensation Plan ("Plan") to pay for Plan-qualified expenses. The amount will be wired no later than 45 days after the quarter-end into the District's specified trust account.

**RESERVE REQUIREMENT:** The PERA will maintain a balance of \$7,500 at all times to ensure consulting and other plan-related expenses can be covered on a quarterly basis.

**DISTRIBUTION METHOD:** The Committee will determine the amount to be distributed annually at the First Quarter Plan Review meeting. Any remaining revenues after all Plan-qualified expenses and the reserve requirement have been met for the prior year will be distributed to participants at the Committee's discretion. The distribution will be paid to participants with a balance at the end of the first quarter in the year of the payment. The formula used to calculate the amount distributed to participants is as follows:

1. Calculate the Average Quarterly Balance for each Participant by using each participant's asset balance for the beginning of a quarter + asset balance at the end of the quarter divided by 2.

Example: 1/1 balance = \$15,000; 3/31 balance = \$18,000. Therefore  
 $\$15,000 + \$18,000 / 2 = \$16,500 = \text{Average Account Balance}$

2. Calculate Aggregate Quarterly Balance by multiplying the Average Quarterly Balance \* # of days in the quarter.

Example:  $\$16,500 * 90$  (number of days in 1<sup>st</sup> quarter) = \$1,485,000 = Aggregate Quarterly balance

3. Calculate Sum of Aggregate Quarterly Balance by multiplying the Aggregate Quarterly Balance \* # of days in the valuation period (e.g.: 365 days for annual calculation).

Example: Take the aggregate balances of all 4 quarters and divide by 365 (number of days in valuation period). This would determine an average account balance for each participant on an annual basis.

4. Sum all participants' average balances which will provide you the plan's average balance for the specific period.
5. Divide each participant's balance by average plan balance. This will supply you a reimbursement factor.
6. Multiply the reimbursement factor by the total amount of excess revenues transferred to The Hartford from the District's trustee for distribution to participants. The result of this calculation will be each participant's total reimbursement

**REVIEW PROCEDURE:** The Committee will review this policy on a regular basis and make any necessary adjustments as needed.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
SPECIAL MEETING DEFERRED COMPENSATION  
PLAN COMMITTEE  
JULY 21, 2009 MEETING MINUTES**

**Members Present:** Mr. Patrick Pearce - Chief Financial Officer  
Ms. Eudora Tharp - Asst. Deputy Executive Officer/Admin and Human Resources  
Mr. Kurt Wiese - General Counsel

**Member Absent:** Mr. Ron Portnoy - Human Resources Manager (Excused)

**1. Call to Order**

The special meeting of the Deferred Compensation Plan Committee was called to order by Rick Pearce on July 21, 2009 at 10:40 am in Conference Room #2F.

**2. PUBLIC COMMENT**

No one from the public attended.

**3. Closed Session**

The Committee recessed to closed session pursuant to Government Code section 54957.10 to discuss one (1) application, based on financial hardship arising from an unforeseeable emergency for early withdrawal of funds in the District's deferred compensation plan. The Committee approved one emergency withdrawal.

**4. Adjournment**

With no further items to address, the meeting was adjourned at 10:50 am.

**MINUTES**  
**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
**SPECIAL MEETING**

AUGUST 19, 2009 MEETING MINUTES

Notice having been duly given, the special meeting of the South Coast Air Quality Management District Deferred Compensation Plan Committee was held August 19, 2009, at 9:00 am at District Headquarters, 21865 Copley Drive, Diamond Bar, California.

**Members Present:** Ron Portnoy - Human Resources Manager  
Eudora Tharp - Asst. Deputy Executive Officer/Administrative & Human Resources  
Kurt Wiese - General Counsel

**Member Absent:** Patrick Pearce - Chief Financial Officer (Excused)

**1. Call to Order**

The special meeting of the Deferred Compensation Plan Committee was called to order by Kurt Wiese at 9:20 am.

**2. Public Comment**

There was no public comment.

**3. Closed Session**

The Committee recessed to closed session pursuant to Government Code section 54957.10 to discuss one application, based on financial hardship arising from an unforeseeable emergency, for early withdrawal of funds in the District's deferred compensation plan.

Following closed session, General Counsel Kurt Wiese announced that the Committee approved one emergency withdrawal.

**4. Adjournment**

With no further items to address, the meeting was adjourned at 9:35 am.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
DEFERRED COMPENSATION PLAN COMMITTEE  
SEPTEMBER 9, 2009 MEETING MINUTES**

**Members Present:** Mr. Patrick Pearce - Chief Financial Officer  
Mr. Ron Portnoy - Human Resources Manager  
Ms. Eudora Tharp - Asst. Deputy Executive Officer/Admin and Human Resources

**Members Absent:** Mr. Kurt Wiese - General Counsel (Excused)

**Committee Consultants:** Mr. John Campbell - Benefit Funding Services Group  
Ms. Tina Schackman - Benefit Funding Services Group

**Vendor Representative:** Ms. Joan Watkins - The Hartford

**1. Call to Order**

The regular meeting of the Deferred Compensation Plan Committee was called to order by Rick Pearce on September 9, 2009 at 2:00 pm in Conference Room #CC7. The Committee noted Kurt Wiese was excused from the meeting due to a prior engagement.

**2. Approval of Prior Meeting Minutes**

The minutes from the June 9, 2009, July 21, 2009 and August 19, 2009 meetings were reviewed by the Committee and unanimously approved.

**3. 457 Plan Quarterly Investment Review – 2nd Quarter 2009**

Mr. Campbell provided a review of the economic and market conditions during the second quarter outlining economic growth, unemployment, inflation, interest rates and market sector returns. Ms. Schackman reviewed the relative performance of each investment option offered in the Plan relative to their respective benchmarks. The Committee noted that out of the 27 funds that receive an evaluation methodology score, 20 earned an "Outperform" ranking and 7 earned a "Perform" ranking. There were no funds in the Plan that earned an "Underperform" score for the second quarter. The funds on the Watch List, Hartford U.S. Government Securities, Hartford Total Return Bond and AllianceBernstein International Value will be addressed during the fund search analysis topic. There was only one material change to report for the quarter: Effective July 6, 2009, Janus Adv International Growth was merged into the Janus Overseas fund as a result of Janus' announcement to become a pure, no-load fund family by removing all advisor-sold shares from their line-up. The Janus Overseas fund has a more aggressive strategy than the Janus Adv International Growth fund and tends to hold higher positions in emerging markets.

The Committee noted the weighted expense ratio of the Plan is 72 bps which is in line with its custom benchmark. Plan assets were approximately \$73 million at the end of the second quarter with 783 participant balances. Participants are conservatively allocated with over 40% of assets being held in Hartford's General Account. Participant's average account balance is over \$93,000 which is well above the national average of \$50,000. There has been positive net cash flow of almost \$1 million during the first and second quarter of 2009.

The Committee accepted the report and noted there were no action items to be taken for this section.

**4. Fund Search Analysis**

The Committee had agreed at the last meeting to review alternative investment options for the three funds on the Watch List. BFSG prepared a fund search analysis for the intermediate government bond, intermediate bond, and foreign equity categories to look for possible replacements for the Hartford U.S. Government Securities, Hartford Total Return Bond, and AllianceBernstein International Value funds.

In the intermediate government bond category, Ms. Schackman reviewed the American Century Government Bond and Wells Fargo Adv Government Securities fund outlining their management style, portfolio structure, investment strategy, relative performance and expenses. The American Century fund

has a similar, conservative investment strategy as the Hartford U.S. Government Securities fund and has provided a better long-term, consistent track record. The Wells Fargo Adv Government Bond fund employs a similar sector weighting strategy to the Hartford fund, but can invest up to 10% of assets in non-government securities and keeps the fund's duration close to the Barclays U.S. Aggregate Bond Index. Since the American Century fund uses a similar strategy to Hartford, demonstrates a good long-term track record and has comparable expenses, the Committee agreed to replace the Hartford U.S. Government Securities fund with the American Century Government Bond fund. Ms. Watkins will confirm this fund is available on the Hartford's platform.

In the intermediate bond category, Ms. Schackman reviewed several funds in this category as possible alternatives to the Hartford Total Return Bond. Four funds were analyzed; Artio Total Return Bond, Metropolitan West Total Return, PIMCO Total Return and T. Rowe Price New Income. Each fund's investment strategy, portfolio construction, management style, relative performance and expenses were reviewed. After a thorough examination of the funds, the Committee selected PIMCO Total Return as its first choice due to its superior performance and management team and T. Rowe Price New Income as the second choice due to its good track record and conservative strategy if the PIMCO fund was not available in the administrative share class. Ms. Watkins will confirm whether the PIMCO Total Return Bond Admin fund is available. If not, the Committee would like to schedule another meeting to discuss these options before making a final determination.

In the foreign equity category, Ms. Schackman reviewed alternatives for the AllianceBernstein International Value fund; Allianz NFJ International Value, Columbia International Value, MFS International Value. All of these funds have good long-term track records and sound management which would make them all viable replacement candidates; however, Ms. Schackman suggested this could be an opportunity for the Committee to consider consolidating options in the foreign equity category since there are currently five options already available in the Plan. The Committee considered a consolidation strategy and agreed to remove the AllianceBernstein International Value fund from the Plan and have any remaining balances mapped to the Plan's existing option, Hartford International Opportunities fund. Participants would still have three actively-managed foreign funds and one index fund to choose from that will provide exposure to most sectors in the foreign equity markets.

To summarize the Committee's agreed upon actions, the Hartford U.S. Government Securities fund will be removed from the Plan and replaced with American Century Government Bond fund; the Hartford Total Return Bond fund will be removed from the Plan and replaced with PIMCO Total Return Admin; and the AllianceBernstein International Value fund will be removed from the Plan and mapped to the existing option, Hartford International Opportunities.

Ms. Watkins will confirm the American Century and PIMCO funds are available on Hartford's platform. In the event these funds are not available, the Committee will conduct an interim meeting to determine an alternative strategy.

**5. Model Portfolios**

The Committee agreed to address this topic at the next meeting when all Committee members were in attendance.

**6. PERA Policy Adoption**

The Committee reviewed the PERA policy prepared by BFGS which outlines the usage of funds deposited into the account by The Hartford. Ms. Watkins commented once this policy was approved she would be able to produce an amendment to the Administrative Services Agreement so they could ensure they were following the Plan's policy. Ms. Schackman will provide a draft policy to Ms. Watkins for her internal contract team to review after making revisions based on the Committee's comments.

**7. PERA Trust Account**

The Committee discussed the establishment of a "trust" account where the funds can be directly wired into from The Hartford to fund the PERA. Mr. Pearce will discuss setting this account up with Mr. Wiese and work with their current banking relationship to set up the account.

**8. Annual Report to the Board**

BFSG prepared an Annual Report to the Board outlining the activities of the Committee during the fiscal year ending in June 2009. The Committee reviewed and accepted the report and will provide to the Board for their upcoming meeting in October 2009.

**9. Hartford Retirement Plan Review**

Ms. Watkins provided a review of the 457 Deferred Compensation Plan for the period 1/1/2009 - 6/30/2009. Areas discussed were participant's monthly contributions, net cash flow on a monthly basis, participant's allocation among investment options offered in the Plan, Hartford website usage by participants, and a retiree update reflecting the number of participants taking distributions and their asset allocation mix.

The Committee accepted the report and noted there were no action items to be taken for the section.

**10. Other Business**

There was no other business discussed at the meeting.

**11. Public Comment**

There were no public comments.

**12. Adjournment**

With no further items to address, the meeting was adjourned at 4:00 pm.

**ACTION ITEMS**

<b>RESPONSIBLE PARTY</b>	<b>ACTION ITEM</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Hartford (Joan Watkins)	Check availability of American Century Government Bond and PIMCO Total Return Admin funds. If available, draft a participant notice and schedule the fund changes.	9/15/2009	Done
BFSG (Tina Schackman)	Revise PERA policy and send to Hartford and AQMD for review and adoption.	9/15/2009	Done
AQMD (Rick Pearce)	Establish trust account on behalf of the Plan to deposit reimbursement checks from Hartford.	10/1/2009	Done

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
DEFERRED COMPENSATION PLAN COMMITTEE  
NOVEMBER 12, 2009 MEETING MINUTES**

**Members Present:** Mr. Patrick Pearce – Chief Financial Officer  
Mr. Ron Portnoy – Human Resources Manager  
Ms. Eudora Tharp – Asst. Deputy Executive Officer/Admin. And Human Resources  
Mr. Kurt Wiese – General Counsel

**Committee Consultants:** Ms. Tina Schackman – Benefit Funding Services Group (via teleconference)

**1. Call to Order**

The special meeting of the Deferred Compensation Plan Committee was called to order by Rick Pearce on November 12, 2009 at 1:08 pm in Conference Room 5A.

**2. Resolution Approving Establishment of a Health Savings Account Plan and Approve Selection of Plan Provider**

The Committee met to review and discuss the analysis prepared by Benefit Funding Services Group on the five proposals submitted to provide a Health care reimbursement program for AQMD active employees. After review of all the Proposals, the committee agreed to recommend The Hartford as AQMD's Health Reimbursement Arrangement Service Provider.

**3. Adjournment**

With no further items to address, the meeting was adjourned at 2:00 p.m.

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT  
DEFERRED COMPENSATION PLAN COMMITTEE  
DECEMBER 17, 2009 MEETING MINUTES**

- Members Present:** Mr. Patrick Pearce - Chief Financial Officer  
Mr. Ron Portnoy - Human Resources Manager  
Ms. Eudora Tharp - Asst. Deputy Executive Officer/Admin and Human Resources  
Mr. Kurt Wiese - General Counsel
- Committee Consultants:** Mr. John Campbell - Benefit Funding Services Group  
Ms. Tina Schackman - Benefit Funding Services Group

**1. Call to Order**

The regular meeting of the Deferred Compensation Plan Committee was called to order by Rick Pearce on December 17, 2009 at 2:10 pm in Conference Room #CC3 and #CC5.

**2. Approval of Prior Meeting Minutes**

The minutes from the September 9, 2009 and November 12, 2009 meetings were reviewed by the Committee. Ron Portnoy motioned to approve both sets of minutes and Rick Pearce seconded the motion. The meeting minutes were unanimously approved by the Committee.

**3. 457 Plan Quarterly Investment Review – 3rd Quarter 2009**

John Campbell reviewed the economic and market conditions during the third quarter outlining economic growth as measured by GDP, current unemployment figures, inflation as measured by the Consumer Price Index (CPI), interest rates and market sector returns. Tina Schackman reviewed the relative performance of each investment option offered in the Plan relative to their respective benchmarks. Tina noted there are three funds that are currently on the "Watch List", Hartford US Government Securities, Hartford Total Return Bond and AllianceBernstein International Value which are all scheduled to be removed from the plan in the first quarter 2010. There will be two new funds added in the first quarter, American Century Government Bond and PIMCO Total Return Bond as replacement funds for the Hartford funds being removed. There was one notable item that occurred during the quarter with the Van Kampen Equity & Income fund. Morgan Stanley sold their retail asset management arm which includes the Van Kampen fund family to Invesco in October. The equity manager of the Van Kampen fund will remain on the fund after the transition; however, the fixed income manager will stay with Morgan Stanley. The fund has not named a replacement for the fixed income manager but expects to have someone in place before year-end. BFSG will monitor this fund closely through the transition to ensure no material changes in management or strategy occur. Any significant changes will be reported to the Committee.

The Committee noted that out of the 27 funds that received an evaluation methodology score, 19 earned an "Outperform" ranking and 8 earned a "Perform" ranking. There were no funds in the Plan that earned an "Underperform" score during the third quarter.

The Committee reviewed plan level performance as of 9/30/2009 and noted the plan has outperformed its passive and active benchmarks over a 1, 3, 5 and 10 year annualized basis. The weighted expense ratio of the Plan is 74 bps which is slightly below the custom benchmark of 75 bps.

Plan assets grew to over \$80 million at the end of the third quarter with 781 participant balances. The Plan has grown over \$13 million since the beginning of the year with the majority of the gain attributed to investment returns. Participants are conservatively allocated with an asset mix of 50% fixed/bonds and 50% equities with approximately 37% of assets being held in Hartford's General Account. Participant's average account balance is over \$102,000 which is twice the national average of \$50,000. There has been positive net cash flow of over \$1.7 million during the first 3 quarters of 2009.

The Committee received and filed the report. There were no action items to be taken for this section.

**4. Model Portfolios**

John Campbell compared the Plan's current target date fund solution with BFSG's asset allocation and target date model portfolios. The Committee reviewed the different characteristics between asset allocation models and target date models. Both models are comprised of underlying investment options in the Plan; whereas target date funds are comprised of a group of funds selected by the investment advisor/fund company operating the funds. Asset allocation and target date models consider a participant's time horizon; however, asset allocation models will also consider risk tolerance. The Committee agreed to proceed with a proposal from BFSG on the asset allocation models at the next meeting because they take into consideration both risk and retirement age. Ron commented he received a notice from Joan Watkins at The Hartford stating the Plan would have until March 2010 to transfer out of the SSgA target date funds at a plan level without any restrictions; therefore, the Committee and BFSG agreed to meet in late January/early February to discuss the asset allocation models as a possible alternative to the target date funds.

**5. PERA Policy Adoption**

The Committee reviewed and adopted the final version of the PERA policy. Tina Schackman will submit to Joan Watkins to have an Administrative Services Amendment drafted to formally adopt the policy with The Hartford.

**6. Other Business**

There was no other business discussed at the meeting.

**7. Public Comment**

There were no public comments.

**8. Adjournment**

With no further items to address, the meeting was adjourned at 3:15 pm. The next Committee meeting will be scheduled in late January/early February to review the Plan's investment option performance and a proposal by BFSG for asset allocation models.